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International Finance in the Post-War World

By Jacob Viner

Professor of Economics, Princeton University.

TO some English critics of the programme for post-war international economic relations which is contained in the provisions of the Bretton Woods Agreements, the Anglo-American Loan Agreement and the American Trade Policy Proposals, one of the major defects of the programme is that it reverts to nineteenth century doctrines and practices for its inspiration. This programme is largely in the spirit of nineteenth century doctrine, and incidentally a predominantly British doctrine which American opinion embraced only as British opinion began to abandon it. It is not *prima facie*, however, a very damaging charge to make against proposals in the international economic field that they are more in the spirit of John Stuart Mill and Richard Cobden than of Smoot-Hawley and Schacht.

The harmony of the present programme with liberal nineteenth century doctrine is especially close with respect to the underlying postulates of the programme: (1) that movement in the direction of freer trade is movement in a direction beneficial to those who so move and to mankind in general; (2) that equality of treatment as between foreign countries or "unconditional most-favoured nation treatment" should, on both economic and political considerations, be accepted as far as is at all practicable as a governing principle in the economic relations between separate political units; and that (3) the device of exchange control as an instrument of trade regulation, the use of national economic strength as an instrument of political coercion, and the devices of import prohibitions and of the exploitation of national monopoly power in the international economic field, despite their revival during the Great Depression, despite their elaboration and perfection by Nazi Germany, despite even their possible merits during periods of disruption and economic anarchy, do not provide a satisfactory basis, economic, political, or even moral, for a pattern of international economic relationships in a reasonably healthy, stable, peace-seeking and prosperous post-war world.

It would be a serious mistake, however, to overlook the substantial extent to which the specific objectives of the programme go beyond what either prevailed or was being actively promoted in the nineteenth century, and the even greater extent to which the programme either accepts as inevitable or advocates as desirable procedures and practices in the economic relations between states which were undreamt of in the nineteenth century. In the nineteenth century, the proper economic role of Government in the international as in the domestic field was regarded as consisting primarily of abandonment of and repentance for past errors of commission and of avoidance of new positive activity because of the supposedly strong general presumption that, like old interferences, it would be injurious rather than beneficial to the national economic welfare. The programme is intended, on the American side at least, to preserve considerable scope for private initiative in the international economic field, and to protect countries wishing to preserve free internal markets from being forced through external pressures to take over from private hands the management or operation of foreign trade. But it goes far beyond any accredited standards of the nineteenth century in the extent to which it looks toward an active role for governments in the international economic field.

I will deal here with only one area of possible governmental positive activity in the international field with which the programme has much concerned itself; the field of international long-run capital investment. I will approach the problems and potentialities of international investment primarily from a world or cosmopolitan point of view, and will begin by a brief exposition of the functions of international investment. None of this may be exactly new but it does, I believe, involve some departure from the established patterns of distribution of emphasis in this field.

The basic argument for international investment of capital is that under normal conditions it results in the movement of capital from countries in which its marginal value productivity is low to countries in which its marginal value productivity is high, and that it thus tends toward an equalization of marginal value productivity of capital throughout the world and consequently toward a maximum contribution of the world's capital resources to world production and income. The competent economist knows that this reasoning, at best, establishes only a strong presumption that international

investment is a desirable phenomenon from a world point of view, and that the statesman, even if able to rise above purely national considerations, would always be justified in raising some questions not adequately disposed of by this argument.

For example, under private enterprise, capital moves internationally in response to two main considerations; levels of prospective interest or other earnings to the capitalist according to the location of his investment, and the capitalist's desire for regional diversification of investment on insurance principles. When the latter consideration is powerful, and when much weight is given to political risks, such as currency depreciation, heavy taxation, or anti-capitalist revolution, capital mobility may degenerate into "capital flight." A presumptive though not a decisive criterion of capital flight is that the capital moves from a region where, for investments which except for their location are as similar as possible, interest rates are high to regions where interest rates are lower. Flow of capital in what seems an up-stream direction, that is, from high-interest to low-interest markets, is not proof of capital flight wherever the nature of the investment is not closely identical. Conversely, it is not evidence that a capital movement does not constitute a flight movement when it is demonstrated that it is movement to a region of higher interest rates. Interest rates have never been completely equalized internationally. Even within the United States for some kinds of investment the regional differentials between rates, say, in Massachusetts and Mississippi, or Vermont and Texas, are probably nearly as high as they were seventy-five or one hundred years ago. Capital flight, therefore, may merely reinforce normal investment flows without resulting in a reversal of a long-standing order of difference in rates between two countries. When the fat of capitalists is on the fire throughout much of the world, the capitalists tend to display a fine taste in frying-pans, and the distant fire may seem less hot than the near one, so that movements of flight-capital may not only cross each other's paths but may follow the identical paths in opposite directions. That flight-capital is a pathological phenomenon calling for special treatment, there will be wide agreement. The difficulty is in identifying it, and in discovering the appropriate and effective remedy.

More important in the past than flight movements of capital, which were, before 1929, unusual, were the various factors which made prospective interest rates or other rewards

to individual capitalists an unreliable index of the social productivity of capital.

Let us assume a country where saving is widespread, where business-enterprise is predominantly small-scale, but where the collection and investment of small savings has been thoroughly organized on a large-scale basis. Let us assume also that expensive overhead costs and other conceivable factors make it unprofitable for these large-scale collectors and distributors of savings to make small loans, and that foreign borrowers willing to borrow in large units are abundant, while domestic borrowers of this type are few. Under these circumstances there will be an uneconomic bias in favour of the export of capital. It seems clear that such a situation existed in the pre-1914 France. In milder form it may have also existed in pre-1914 England.

Let us assume now that there are young and backward countries with inefficient, profligate, and even corrupt governments willing to mortgage their countries' present assets and future prospects in return for large foreign loans at high rates of interest, the proceeds of the loans to be used for the building of over-elaborate capital cities and for political plunder rather than for the genuine economic development of the borrowing countries. Here, the import of capital works detrimentally in terms both of a national calculus and of a cosmopolitan calculus. It seems clear that such a situation existed for much of Latin-America throughout much of the nineteenth century.

There is still a third consideration on which it can be held that earning-rates of investors are not a reliable index of the comparative productivity of alternative investments. There is a species of so-called "external economies" consisting of the lowering of costs, or the increased effectiveness of production, accruing to the firms of a particular industry because of expansion in the number and/or extent of other and different industries operating alongside it in the same region. As these economies are likely to differ in extent as between different industries and in different regional settings, and as they always should be given due weight in social accounting, differences in earning rates to investors from international investments are, for this reason also, not to be accepted as conclusive as to which is the most desirable investment. But the proposition I have encountered, that an investment is a desirable one whenever its direct earnings plus these extra economies equal the current rate of interest, does not follow, since these economies of

complementarity do not accrue exclusively to investment which cannot pay its own way directly. There no doubt are, however, important types of investment where for one reason or another the investor can appropriate directly only a small share of the social productivity thereof. Such investments tend to be unattractive to private investors and should, therefore, be the special concern of governments. Roads, drainage and irrigation projects, and flood-control are outstanding illustrations of this category of investment. It is likely to be a peculiarly prevalent category in capital-poor and undeveloped countries or regions with large populations living mainly on the basis of a primitive, subsistence agriculture, and therefore such investments call specially for international collaboration.

Not only, therefore, are there occasions where governments should interfere with an international flow of capital which would occur if left unregulated, but there are desirable flows of capital which will not occur unless governments initiate or support them.

I do not wish, however, to seem to be throwing overboard more of my inherited intellectual baggage than I am really discarding. The nineteenth century international flow of capital, despite its unregulated character, and despite the fact that it was motivated almost wholly by considerations of private profit, was one of the many great blessings which cupidity has procured for mankind. The saying of Edmund Burke that "Nothing is good but in proportion and with reference [to circumstance]," is rarely likely to be a good practical rule of statesmanship. Man cannot delay at all times to weigh proportions and to exhaust circumstances. He must largely operate by general rules, general presumptions, and often without serious damage and with contribution to drive and force he will convert these into general dogmas. This applies, I believe, to the international capital movements of the nineteenth century. They were not of the ideal proportions. They did not take the ideal directions. But the freedom permitted to them worked on the whole for the good of mankind, or at least of those parts of the world where the ghost of Malthus was either not permitted to walk at all or was hobbled.

I believe that for at least a generation in the post-war period the international migration of capital will have opportunities for service to the world wholly comparable to the service it rendered in the nineteenth century.

In the first place, there is great need of rehabilitation and reconstruction of war damage. It is a need which without aid of foreign capital cannot be met by the countries most concerned except at tremendous impairment of their pre-war standard of living and at a much reduced rate of speed. It is a need which it is in the self-interest of the more favourably situated countries to help to meet to an extent going beyond all pre-existing standards of appropriate generosity between nations in financial matters.

In the second place, an old channel of highly-productive international investment which hitherto has been wide-open only on the receiving end may now be opened wide also on the lending end. Much of the capital-movement, by far the most valuable, of the nineteenth century, went from industrially-advanced countries, most notably England, to countries still in an early stage of their economic development, like the United States and Canada. In the lending countries, the export of capital was almost wholly a matter of private enterprise. For the private investors, normally the sole considerations taken into account were the returns promised and the degree of assurance that the promises would be kept. Where public opinion or government in the creditor countries took any interest in the export of capital, it almost invariably was either a hostile interest or, if a favourable one, was based on political rather than on economic considerations. In most countries there was a bias against the export of capital; a bias in the investor's mind because things close at home with which he thought he was familiar seemed more secure than things far away, about which he knew he was not well-informed; a bias in government regulation of the money market; a bias in taxation. If the capital-rich countries recognized that the development of backward countries brought benefit to themselves, they were likely also to recognize that the benefits would be no less if the investment in those backward countries were made by some country other than their own, and were willing to "let George do it." Since most of the capital-exporting countries were also exporters of manufactured goods, and since "development" tended to be regarded as synonymous with "industrialization," "industrialization" with "manufactures," and "manufactures" with manufactures rival to their own, public opinion in the capital-exporting countries almost universally regarded the export of capital with suspicion, if not with positive hostility.

It was only the strength of the *laissez faire* doctrine in the nineteenth century which prevented the imposition by governments of severe restrictions on the export of capital. Under these circumstances, governments never contemplated actively promoting large-scale development investment in other countries, not even in their own colonies. Large-scale industrial development under official international auspices would also be novel.

There has always, however, since the Industrial Revolution, been a great field for investment on a large-scale basis in undeveloped areas, and the nature of the field has always been such that it was unlikely either to be largely exploited on a private investment basis or to receive official aid from a capital-rich country except upon conditions or under circumstances where there was intention or suspicion of use of economic investment as a basis for subsequent political penetration. In this particular field, therefore, there has long been need for large scale investment which was unlikely to be attractive to private investors, and which the colonial rivalries of lending countries and the fears of encroachment on their sovereignty by the governments and peoples of the borrowing countries made difficult to meet through the official initiative of single capital-exporting countries. This is a field, therefore, peculiarly suitable for the operation of financial agencies set up on a multinational basis.

There is a third field for post-war international investment which is also not new in terms of need, but has become psychologically and materially much more urgent, and which has now for the first time, because of changes in economic views and increased disposition of governments to collaborate on economic enterprises, come within the realm of practical politics. This field is the field of international investment as an instrument for the planned prevention of mass-unemployment.

What has all this to do with the Anglo-American post-war programme? If one were to judge from the writings of those British economists who have been hostile to the programme, one would be led to conclude that the programme has wholly ignored the needs for planned international investment, for they systematically omit any mention of the existence of far-reaching undertakings in this field. They go further. Convinced that bilateralism is, for various reasons, essential to planned development, they charge the proposals directed against bilateralism with being a serious, perhaps a fatal, obstacle to large-scale

development plans. I do not regard the programme as adequate to meet the needs which I have been discussing. I see still other needs with which it fails as yet to deal at all. But I take it as probable that none of those who shared in the development of the programme regarded it as definitive and final in any respect. It may also have been expedient to dole out gradually to the American public the full scope of the obligations associated with acceptance for the first time by the United States—or for that matter by any country—of responsibility for international collaboration on a world-wide basis in the economic field. For other peoples, to whom the need for receiving rather than that for giving aid seems more urgent, the gradual and as yet incomplete framing and disclosure to the public of the programme may, on the other hand, have been inexpedient because it has led to failure to realise its actual or potential scope and range. In any case, if the Anglo-American programme once becomes a going concern, it will inevitably become also a growing concern, expanding its scope and its depth as needs become apparent and as time accrues in which to carry out the necessary planning and negotiation.

But let us examine the programme as it is with respect to its bearing on international investment. First, as to specific measures, there are now in process of being set up, in accordance with the Bretton Woods Agreements, two international financial agencies: The International Monetary Fund and the International Bank for Reconstruction and Development, with a total amount of authorized commitments, under full membership, of some $20,000 millions for the two combined. That is still a good deal of money. It seemed even a bigger sum when the plans were first being drawn. I think it quite probable that the sums authorized will be seriously inadequate to achieve the purposes of these two agencies, and especially the purposes of the International Bank. But if this proves to be the case, this will be one point where the programme will readily be capable of growth as the extent of the needs gradually reveals itself.

No one is under any obligation to believe that either the Monetary Fund or the International Bank have been ideally designed for their purposes. But the two agencies, if they are well-managed and loyally-supported by their members—and we must assume that they will be until there is concrete reason for not doing so or else abandon all hope of international economic collaboration—will be in a position to make a substantial contribution toward amelioration of any balance-of-

payment difficulties resulting from the partial surrender of national autonomy over trade barriers. Both agencies have the all-important merit, that the dealings of debtors will be with a multi-national agency which will have the obligation to refrain from serving narrowly-national purposes and which will not readily find within the limitations of powers set by their charters the means to violate the obligation, even if perchance the will to do so should arise. In so far as their resources permit, these agencies will enable economically and politically weak countries to receive financial aid without thereby becoming entangled in the political net of a great Power.

Fixed-interest and maturity obligations of governments are an economic nuisance internally which can be partly mitigated by the power which governments have to issue fiat currency or to borrow at will from their banking systems. Externally, fixed-interest and maturity obligations are a nuisance without mitigation except that of default or repudiation, resort to which has in the past been a very humiliating measure to take for governments capable of feeling humiliation and has upon occasion left a legacy of ill-feeling on the part of the creditors which was of continued political importance a full generation after the default or repudiation.

There is a technical problem here which can be more easily formulated than solved: how procure the needed flexibility for the debtor in the schedule of debt-service obligations, while giving reasonable protection to the creditor against wilful disregard of its obligations by the debtor? *Ad hoc* negotiation or arbitration when the crisis comes, although better than nothing, is an inadequate remedy, since the chief value of flexibility in debt obligations is that the debtor knows in advance that he will not be squeezed if a crisis comes. The three post-war international financial agreements so far negotiated, the Monetary Fund, the International Bank and the Anglo-American Loan, each make some contribution to a solution of this problem. Under the Monetary Fund, debtors to the Fund have no fixed maturity obligation, but the interest rates payable ("charges") rise as the duration and amount of indebtedness grow. Under the Charter of the International Bank, the Bank can postpone debt-repayment obligations. It may be objected that this is a routine power of any bank. But this is not a profit-making bank, and it will be obligated to postpone debt-repayment obligations whenever in its judgement the purposes of the Bank, which, I repeat,

are not to maximize its own net revenue, would be best served thereby. Finally, the Anglo-American Loan Agreement authorizes the debtor country, England, to call for a waiver of interest payments whenever certain criteria, which may be termed "capacity to make external payments criteria," fall below specified levels.

These all seem to me to be constructive innovations, giving to the debtor a measure of needed flexibility in debt-service obligations while leaving the creditor agency with substantial protection against abuse. Further experimentation in this direction is needed, especially in connection with the obligations of government debtors to private foreign creditors. I regret the failure of the programme to date to make any contribution to the development of a code to govern the relations of government debtors to foreign private creditors. This failure, if not remedied, will greatly hinder any revival of an international private market for government securities. Responsible governments will be reluctant to borrow abroad on the basis of rigidly-fixed repayment schedules, and sober private investors will be reluctant to lend to foreign governments which have given any indication that they take their foreign financial obligations somewhat lightly—a category of countries with rather numerous membership.

There is one other point, a major point, on which I believe that the Anglo-American planning in the international financial field, so far as that planning has been made public, is seriously lacking in its scope and that is the problem of international co-operation to avoid mass-unemployment. The two countries, and most of the other United Nations, have solemnly pledged themselves to co-operation in this field. Article 7 of the Anglo-American Mutual Aid Agreement of February, 1942, calls for "agreed action by the United States of America and the United Kingdom directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods." The San Francisco Charter of the United Nations Organization goes further. It pledges the member countries to collaboration in maintaining "full employment." It provides for an Economic and Social Council, which has already begun to function, among whose tasks are the exploration of mechanisms whereby this pledge can be implemented.

These pledges should be taken seriously until there is reasonable justification in the record for assuming that they

had gone the way of the good resolutions in the economic field which the League of Nations so lavishly supplied. It is true that without abundant American co-operation there will be little likelihood that in case of need the pledge could be effectively carried out, and that at San Francisco the American delegation gave American adherence to the pledge rather reluctantly. I believe, however, that the American reluctance was due to the spurious precision of the pledge. "Full employment" is a very precise-sounding term. No government should make precise-sounding pledges about inherently unprecise things to other governments, to itself, or to its constituents.

Let us assume, however, that what our two countries and the United Nations in general are committed to is to seek sincerely and earnestly for procedures and mechanisms whereby the threat of world mass-unemployment, should it occur, could effectively be met by joint international action. What are the procedures contemplated? What are the most promising ones conceivable in our present state of enlightenment on this issue?

It is my impression that those in charge of the American planning believe that the major contribution which the United States can make to the maximization of employment is by promoting the reduction of trade barriers, including the American ones, and by promoting the export of capital, including, of course, American capital, to countries in need of it. It is my impression also that many economists believe that the international synchronization of fiscal policy is the best available means of coping with the problem of world mass-unemployment if we should again be plagued with it and this view has also been expounded by the I.L.O.

All three of these remedies seem to me either clearly ineffective for the purpose or clearly unavailable.

First, as to the reduction of trade barriers. I strongly believe in its desirability. But it is not a remedy for unemployment, and we should not accept bad arguments even when they are presented in support of the best of causes. It was once widely believed that a low level of trade barriers would contribute effectively to the prevention of mass-unemployment. But that was on the basis of a line of argument which, I fear, was unrealistic even then, and which is clearly so now.

Under a free-market system, the main cause of mass-unemployment is price- and cost-rigidity. Tariffs and trade barriers are often more important as a protection to national

rigidities in prices and costs than as a barrier to imports. Remove tariffs and it becomes much more difficult for private monopolies to operate on the basis of frozen prices. But this line of argument now seems to me to be obsolescent if not obsolete. Monopolies and price-rigidities are now not left to private initiative to establish and maintain, but are one of the main activities of government under the new dispensation. Governments which have such rigidity as an objective have many ways of achieving it even in the total absence of formal trade barriers.

Leaving this argument aside, the general tendency of the reduction of trade barriers would be to raise the quality, but not particularly to affect the quantity, of employment. If any clear direction of influence of trade barrier reduction on the volume of employment could be posited in advance on theoretical grounds, it would seem rather to be a downward than an upward influence. For the world at large, moderation or elimination of trade barriers should lead to higher real incomes. But the demand for employment tends to fall as the level of income rises, *i.e.*, the higher the level of real incomes, the shorter is likely to be the length of the working-week, the longer the length of vacations, the later the school-leaving age, the earlier the retirement from gainful employment, and the lower the birth-rate.

In the same way, the argument that the routine export of capital promotes either greater volume of employment or more stability of employment must be rejected. Here again the function of the export of capital is primarily to improve the quality of employment rather than to change its quantity. In the nineteenth century it is true, capital export, in facilitating emigration from crowded to empty countries, did promote growth of population and so also growth of employment. But the era of mass-migration is over, and one of the present-day functions of the export of capital should be to reduce the amount of over-employment, especially in regions where there are too many people and where long hours and child labour are associated with low labour productivity.

Unplanned capital export, also, is likely rather to accentuate cyclical instability than to lessen it. On the whole, the international flow of capital has probably had even more pronounced cyclical swings than the flow of internal capital investment. International capital flows have fed world-booms while deflations and depressions have been

accentuated by the stoppages of customary capital movements.

Even from a strictly national point of view, I cannot accept the argument by which American participation in the International Bank and the American loan to England have been supported in my own country, that the export of capital from the United States will maintain employment in the United States. In both cases, the great outflow of capital will occur when there is a strong tendency to inflation in the United States, and when brakes rather than stimuli are what the American economy needs. Debt-service on amortization and interest account reaches and exceeds the annual amount of a constant gross outflow of new capital after a period surprisingly short for those like myself who are still capable of being startled by the wondrous working of compound interest. For American employment to be sustained for any length of time by American capital export, there would be needed an outward gross flow of capital increasing each year at an increasing rate of increase and eventually reaching fantastic levels.

I am unable likewise to accept as practicable the idea that international collaboration to cope with mass-unemployment can be made effective through the device of negotiated and planned sychronization of national fiscal policies. It may be that there will be substantial harmony of view throughout the world as to the proper fiscal policy to follow in the face of the threat of a serious depression. This does not seem to me to be a wild hope. But then the synchronization will be a coincidence rather than a negotiated or contractual one. But for the United States at least, and I suspect for many other countries, the constitutional and traditional practices with respect to budgets and control of the purse make it the height of improbability that the legislative bodies would ever consent to surrender their legal powers over expenditure and revenue either to an international authority or to national executives bound by contractual obligations to conform in their fiscal decisions to a predetermined and partially externally-determined pattern.

There is no disposition on my part to challenge the desirability and even the urgency of large-scale international collaboration to deal with the problem of mass-unemployment. While, therefore, I believe that in this particular area general pledges have gone too far, it seems to me that sober and carefully thought-out planning has not gone far enough, or has not

made any progress at all—unless there are schemes on the desks of Washington and London which are still to be disclosed.

I believe there is a workable device which would implement the obligations assumed by our two countries and by all the signatories of the San Francisco Charter. What I would propose would be an International Employment Stabilization Fund, endowed with very great financial resources much along the lines of the International Reconstruction and Development Bank, but on a scale perhaps three or four times as great. I would have it set up and organized on very similar lines to the International Bank except for two very important particulars. First, it would be obliged to lend freely when depression was threatening and to cut off lending and to press hard for repayment when employment conditions were buoyant. The International Bank theoretically could operate somewhat in this manner, but it is under obligations to give consideration to all applications while it is in funds, and it is likely to do all its first lending to the limit of its resources during, say, the next five years, and then to have to wait for earnings and repayments to flow in before it can again engage in large operations. The second point on which the agency I propose would differ from the International Bank would be that while prudent management of the resources of the International Bank, presumably in the sense of preservation intact of its capital, is an obligation imposed on its directorate by the Bank's charter, I would authorize the Employment Stabilization Fund management to lend at critical times to the most suitable applicants, however poor credit risks they might be, to the extent necessary to get its funds into operation.

My proposal assumes that there will always be an adequate supply of suitable would-be borrowers. This seems a valid assumption as long as there are capital-starved undeveloped countries. The speed in getting actual investments which is necessary for the successful operation of an agency of this kind can be assured if a stock of approved applications is accumulated in advance, to be financed whenever the authorities of the Fund find it expedient to do so. Large scale development projects for backward areas could well be given preferred status in the activities of such an agency, and a good deal of the necessary surveying and planning could be done in advance of actual release of the funds. Similarly, any programmes of accumulation of stocks of basic commodities for commodity stabilization and for the maintenance of " ever-normal

granaries" could readily be fitted into the operations of this agency. The schedules of amortization of indebtedness to this agency and of interest payments, if any, should be made highly flexible, and should be put at the discretion, within limits, of the agency. There should be deferment of obligation to repay in years of world-depression, and increased pressure to pay in years of dangerously rapid expansion of business activity. No other means of dealing internationally with the problem of mass-unemployment is visible which would face fewer technical or political problems. For the time being, no doubt, the Bretton Woods agreements, UNRRA, and the special loans to England and to other countries, are as large a programme of financial aid to countries in need as the creditor countries, and especially the United States, could be prevailed upon to accept. But willingness to meet needs for expansion of the programme as they become apparent should not be written off in advance as unlikely to be present.

The American programme, in its present status, already goes much farther in the direction of planning "development" on an international basis than had ever been even dreamt of before 1940. I have tried to make it clear, nevertheless, that I do not think it goes far enough. But there is no ground for assuming that agreement to carry it further is out of the question. Meanwhile, those who attack the programme on the ground that, by barring bilateralism or otherwise, it constitutes a barrier to rather than a promise of international aid for development, should support their claim by showing in some detail how bilateralism would be likely to lead to more of such aid than the American proposals and commitments in their present stage already foreshadow, and in particular what the scale and the sources of the financing would be under any alternative programme that is within the bounds of acceptability and practicability. I am convinced that if the critics accepted, as they should, this responsibility, it would at once become apparent to them and to us that the solution of the problem of the backwardness of industrially-backward countries, in so far as it must depend on international aid, can more effectively be promoted within the lines and in the spirit of the present programme than by any alternative means which are within the realms of practical politics.

JACOB VINER.

What did Mr. Malthus say in 1798?

By The Lord Kennet of the Dene,
P.C., G.B.E., D.S.O., D.S.C.

WERE one to ask a man in the street "Who was Mr. Malthus?" I can imagine him answering, ". . . a bad man; a malignant person of German origin, who hated his kind and had pessimistic ideas about economics now exploded; and a writer of improper books about birth-control." In such an answer there would, indeed, be the faint echo of old controversies, but it would be wrong in every particular.

Malthus was of unmixed English stock. His supposedly foreign name is as English as an old Kentish malt-house. His earliest known ancestor was a puritan divine under the Commonwealth, and his father was a small squire who lived at Dorking, where Malthus was born in 1766. He was a man of boundless kindness, with charity for all men, and a deep concern for the welfare of humanity. He was a fellow of Jesus[1], a clergyman of the Church of England, and for 30 years a much beloved and trusted teacher of youth at the East India College, then at Haileybury. In his works there is no reference to contraception, and not a word that could bring a blush to any cheek. So far from his theories having been exploded, they are an enduring part of the foundations upon which modern economics have been built. The first edition of his "Essay on Population" is more: it is a milestone on the path of the analytical thought by which the mind of man has achieved a better understanding of his relation to nature in general, and to human society in particular. Charles Darwin is the witness, who tells us that it was the Essay which started the process by which his theory crystallized out of the immense accumulation of his observations and experiments. Malthus's description of the struggle for existence helped him to understand how in such a struggle it is the fittest that survive.

But the Essay is of more than historical interest; it is a tract for our own times, as well as for those of Malthus. To understand it one must recall his background. His father was a gentle but enthusiastic follower of Rousseau, of whom he made a friend during Rousseau's stay in England, and he brought his

[1] For the information of our foreign readers, this connotes Fellowship of Jesus College, Cambridge.

son up in the faith. Rousseau and Hume were to be his idols. He was to admire the French Revolution, and for his tutor his father chose Gibbon Wakefield, the Unitarian Minister from Birmingham whom Pitt put in prison for admiring the revolution too much. In current phrase we should say that the formative period of his life was spent in an atmosphere of the Left. He went to Cambridge and was a good mathematician, and ninth wrangler. He took a fellowship at Jesus with ease. He had a share in managing college affairs, and must, for instance, have helped to try and keep in order a particularly revolutionary and eccentric undergraduate of Jesus, Samuel Taylor Coleridge, who ran away and enlisted in the Dragoons. So he passed to a curacy at Albury, near Dorking, and to the professorship of History and Economics for 30 years, at Haileybury.

That was the surface, but beneath it was much more. Mathematical Cambridge had turned his mind away from the amiable generalities of the Friends of Humanity towards the search for facts and towards close reasoning from facts. He found himself capable of great activity of mind, and of intense and prolonged application to the observation of facts and the analysis of the conclusions to be drawn from them. He was, in short, a realist and a logician, dissatisfied with anything but the realities of the world as a basis for thought. He also loved a good argument; and having argued everything out with his Cambridge friends he looked into the greater world to find somebody else to argue with, and found antagonists there ready to his hand.

These were the Perfectibilists, and the Perfectibilists were the torch bearers of the Revolution. Condorcet had the torch from Rousseau, and taught the men, who later beat him to death, that all the evils of man are due, not to defects in his character, but to defects in his institutions. In England Godwin caught the fire, and preached the perfectibility of man through equality. Only give us time enough and total equality, without any laws at all of property or marriage, and we shall all live together in peace and happiness, and evil will be over for ever. So Godwin taught. It is noticeable that he, the Perfectibilitist, as we know from his relations with Shelley, was a snob, a sponger, and a scamp; while his critic Malthus, the realist, was a man of the utmost integrity.

The ideas of Condorcet and Godwin were, of course, the ideas in which Malthus had been brought up by his father and Gibbon Wakefield. The mature and formidable young mathematician, deeply pondering the realities in his country curacy, reviewed those ideas, shook his head over them, told his father that they would not do, and in reply to his father's challenge delivered his attack upon them in the first "Essay on Population." It was published in 1798 when the Directory was on its last legs, England was threatened by invasion, Fichte was being expelled from Jena, and Irish catholics were killing protestants on Revolution principles. So men of sober mind had had time to review the benefits of the violent destruction of a social order in the name of liberty, equality, and fraternity. The book is a dumpy little octavo, badly printed on bad paper. Few copies were issued, and they are now extremely rare. (There is a good reprint by the Clarendon Press.) It made a great splash, from which the ripples are still spreading.

The theme of the book is the struggle for existence. Condorcet held that give man perfect institutions and his nature will be perfect. No, said Malthus. Man's nature with its weakness and passions is incapable of perfection. There is no evidence in his history or present state that his passions can be eliminated so as to eliminate evil. His character can be improved but not perfected. Godwin supported Condorcet, and added the remarkable suggestion that science might prolong human life for ever. Malthus raised his eyebrows. There is no evidence, he writes, that such a goal, or any of the goals of the Perfectibilists, is attainable; and in a brilliant passage he lays the true foundation upon which to build expectations of the future. We must not believe anything which absolutely contradicts uniform experience. There is a very striking difference between that and believing an assertion which contradicts nothing, but is merely beyond the power of our present observation and knowledge. In short, man always has been acquisitive and competitive, and there is no reason to suppose that any change in his institutions will ever make him otherwise. Institutions and social systems founded on a contrary assumption must fail.

Malthus goes further. He undertakes to prove that it is in the nature of things that there must always be a struggle

for existence, that in the struggle there must be varying degrees of success, and that the less successful must feel some measure of want. Your plans, he contends, for an equalitarian society, where everyone has all he needs, with security that it will always be so, are an idle dream. Nature will always defeat them. Even if you were to succeed in establishing such a society, it would be unstable. Natural forces would restore inequality and want.

To prove this he examines the nature of the struggle for existence, and describes it thus. Population increases in a geometrical ratio. Food supplies increase in the much slower arithmetical ratio only. But it is not possible that the two ratios should differ widely or for long. There cannot for long be more people in the world than there is food to feed them. What prevents the ratios from differing is want, imposed by some upon others in the struggle for existence. It is want and all its evils that check the growth of population.

It is a pity that his training led Malthus to give so mathematical and over-precise a form to his thesis. It is not necessary, and it is not satisfactory. It is, for instance, easy to object that cattle and cereals increase in geometrical ratio, like man, not in arithmetical ratio. Nevertheless, the thesis is true in substance. Population is always tending to outstrip food-supply, and being kept in check by want. To test the truth of that, one may use a method which, although often imperfect, is always useful, the method of extremes. Suppose that all means of increasing food-supplies have been exhausted, and the world is producing the maximum. Families will still tend to exceed two children, and the population to increase. There must then be competition for the means of subsistence, success and failure and, with failure, want. To enforce equality can then only force all down together into misery.

Birth-control, it must be observed, was not a factor to be taken into account in Malthus's day. Had it been, it would not have affected the validity of his argument. People will not willingly abstain from the pleasure of children, unless they already experience to some extent those consequences of want which make children a burden. Birth-control can only mitigate the effects of the tendency of population to outgrow subsistence; it cannot prevent them.

The course of events since the days of Malthus has shown

the need for another refinement upon his theory, in the stark form which he first gave it. Since then applied science has improved our lot in civilized lands with many new comforts, and each comfort, as we have grown used to it, has become a necessity. We have learned that "want" is a comparative term. Our "wants" are relative to the standard of living to which we are accustomed in our own time and place, and so we may see population being checked in one part of the world by conditions that encourage it in another. Population in our times has, indeed, been checked in Western Europe while it has increased in Asia under a far lower standard of living. What is want in Manchester is plenty in Malabar.

Such are the bare bones of the Malthusian dialectic, a skeleton in the cupboard of all Perfectibilists, equalitarians, and planners of a Utopia in which there is no competition; and a skeleton of which they cannot get rid.

William James divides minds into tough and tender. In this sphere, the tender-minded are for ever seeking to frame a polity which will get rid of the curse of Adam. They look within, see the unlimited spiritual riches of the human mind in its best examples, and plan for a world of abnormally elevated beings, free from the impact of adverse circumstance. The tough-minded look without, and see that the material riches of humanity's environment are by no means unlimited. They plan for a polity which takes notice of the limits imposed by nature upon human perfectibility, and, by seeking an attainable better, avoid the failure, often catastrophic, and the delay, always mischievous, involved in the pursuit of an impossible best. Malthus is the type of the tough-minded.

Some of the practical applications which he made of his principles to the questions of his day are still interesting. He opposed for instance all personal allowances (in his days poor-law allowances) not given as the direct and proportionate reward of useful work. "They tend to increase population without increasing the means for its support, and thus to . . . create more poor." Pitt's poor-bill of the day was a case in point, and he fell foul of it. Pitt, we know, had a more open mind for the new subject of political economy than Fox, who thought that it was a dodge of Pitt's to dish the Whigs; in this case his judicial mind was brought to admit that the economists had the best of the argument, and ultimately he dropped his policy of parish-allowances altogether. It should be said, by

the way, that Malthus based his arguments about such practical affairs on no narrow academic basis. He had a clear insight into the relations between production and consumption, wages and prices, savings and investment, and of the quantity theory of money. He developed these subjects in a characteristic example of his genius, a correspondence with Ricardo which began in 1811 and ended only with the death of Malthus in 1834. In this Malthus seems throughout to have his feet on the earth, and Ricardo his head in the clouds. The two great minds differed widely, but the more they differed the better friends they became. Of their contention Keynes wrote ("Essays in Biography," page 144): "If only Malthus instead of Ricardo had been the parent stem from which 19th century economics proceeded, what a much wiser and richer place the world would be!"

It would be wholly to misjudge Malthus to conclude that he was a pessimist of the sort that despairs of all effort to improve our human lot. It is true that in the first edition of the Essay, to make his case the clearer, he stresses the insurmountable bar to its unlimited improvement. But in the 2nd edition (1803), a much larger and certainly a less readable and brilliant book, he writes about how improvement can be achieved and what is to be avoided in the process. He never wrote a word to discourage us from the struggle for improvement; he sought rather to guide our efforts in the right direction. What is that direction? Malthus answers the question by a parable. An oak-tree has roots, trunk, and top. The trunk, the middle, is the part most useful to man. Roots and top may be of no practical use, but they are necessary to the growth of the oak, and it is no good trying to grow an oak without them. Effort should be directed to growing an oak with as much trunk and as little top and roots as possible. Similarly, because competition for subsistence is inevitable, human society will always have upper, middle, and lower classes. It is in the middle stratum that effort and reward are best balanced, and it is consequently in that stratum that humanity is best off and most productive, especially in the riches of the mind, which are the best riches. So effort should be directed to reducing the proportion of the extremes, the upper and lower classes, to the middle class. But any attempt

to get rid altogether of top and roots must fail. In Malthus's time this was no doubt an adequate plan for a social policy. Since his time our society has gone a long way in reducing the proportion of roots and top, particularly of top. It is arguable that top has been reduced to an extent that threatens the health of the tree. Certainly it has affected its beauty.

The illuminating little book comes to an end with two chapters which are a treasure of our literature. The curate of Albury realizes that his argument about the inevitability of want and its consequent evils, material and moral, must shock the orthodox church-men of his day, and he goes to meet the coming storm by giving an account of his faith. It is very much that of a pantheist who approaches Deity through nature. He accepts, of course, the doctrines of his church (with the exception of eternal punishment) but he rejects the conclusion that this world is no more than a place of trial for a future and better state. On the contrary, it is the scene upon which good is realized, as only it can be realized, by conflict with evil. Good emerges, he says, anticipating Alexander, by a process in time, and the process is that by which the mind of man, which is the source of good, is stimulated into activity by the needs of man, and not least by his material needs. Without want, no effort; without effort, no mind; and without mind, no good. The struggle for existence is the cause of man's happiness as well as of his misery. Competition is the root of all good, as well as of all evil.

These brief, austere, and eloquent chapters are full of the insight into realities which is needed to give us courage to face and cope with evil days. They tell us why we must put up with a world by no means altogether to our liking. Nobody, I think, after he has read the Essay, whether it attracts or repels, will ever think quite the same thoughts about the objects of social endeavour as he thought before. This paper will have served a purpose if it suggests to one or two to read or re-read the book, and to apply its arguments to current questions.

KENNET.

Statistical Section.

For the assistance of readers we would call attention to the following points:

COST OF LIVING (pages 26 to 30).—This section analyses in greater detail than has been done hitherto the information about price movements implicit in the White Paper on National Income and Expenditure. As everybody knows, the prices of essentials, which are subsidized and subject to price control, have risen much less than those of inessentials, which are far less rigidly controlled and in some cases are subject to heavy indirect taxation. The movements of these two broad groups thus set the upper and lower limits to the decline in the purchasing power of money, and the true rise in the cost of living—however defined—must lie somewhere between these extremes. It is shown that the picture is not radically altered whether one includes in the cost of living the whole range of goods and services on which incomes are in fact spent, or brings in only some proportion of the " inessentials."

SECURITY YIELDS (page 33).—The chart shows the yields obtainable over the period 1930–1946 on four classes of Stock Exchange securities: British Government stocks as represented by Consols, debentures, preference shares and industrial ordinary shares. It will be seen that the yield on Consols, which measures the pure rate of interest entering into the valuation of all securities, shows a generally declining trend, except in the early stages of the war. The two peaks in ordinary share yields, in 1931 and 1940, measure the high " risk premium " required by investors at times of extreme uncertainty. On the other hand, it will be seen that from mid-1932 until mid-1937, the yield on ordinary shares was actually below that on debentures and preference shares, reflecting the expectations of a substantial rise in dividends. The rise in ordinary yields since mid-1945, despite the continued decline in the yield on Consols, is doubtless associated with nationalization fears.

NOTE CIRCULATION (page 34).—The chart brings out the " rising tide " of the note circulation over the war period. In recent months the upward trend has become much less steep.

IMPORTS AND EXPORTS (page 35).—It will be seen that in the second quarter of 1946 our imports were still less than three-quarters of their pre-war volume, but exports had recovered almost to their pre-war level. In July, exports were as much as 20 per cent. above the pre-war level.

NATIONAL INCOME OF THE U.S.A. (page 36).—Since the end of the war, it will be seen, total American production has declined sharply, while remaining very substantially above pre-war levels. The decline reflects the curtailment of Government expenditure at a more rapid pace than the recovery in private capital formation and the production of consumers goods, this in turn having its counterpart in increased unemployment and the withdrawal of some workers, especially women, from the labour market. The various items in the table are broadly comparable with the corresponding items of our own White Paper on National Income (see July Issue, pages 42–43). " Net income of proprietors " measures the net earnings of businesses, both sole proprietorships and partnerships, but excluding incorporated companies.

The Cost of Living.

IN the July issue of this Review we published[1] side-by-side with the "official" Working Class Cost of Living Index an index showing the progressive increases in the price of all consumption goods from 1938 to 1945. The two indices cannot validly be the subjects of direct comparison for two main reasons among others :

(i) The "Working Class" Cost of Living Index, first published in 1914, is derived from expenditure of a class which is nowadays not so readily identified as it was in 1904 when the supporting statistical samples were collected.

(ii) The term *Cost of Living* is as shadowy a concept as the identity of the "Working Class" and varies from year to year. The candles and oil lamps of the first decade of this century have given way to the gas and electricity of the present time, and so on. Necessities then excluded the "conventional necessities" of to-day.

There are, admittedly, serious objections to the continued use of the "official" Index. Tastes and conventional standards have changed in the past 40 years. There has been a greater levelling of incomes[2], allowing most working men and women to regard one-time luxuries as necessities to an already established higher standard of living. The Ministry of Labour and National Service is known to be desirous of adjusting the Index to allow for changes of this kind, but the present period of controls, subsidies, rationing and high indirect taxation is inopportune.

On the other hand, an index derived from our knowledge of the amount of money spent on all consumer goods[3] can in no way be regarded as a valid portrayal of the changes in prices paid by the indeterminate "Working Classes," since "all consumer goods" include some luxury or non-essential goods and services.

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(1) On page 49. (2) See page 46 of the July issue for evidence of this. (3) White Paper Cmd. 6784.

In the official index the expenditure of the working class household was reckoned in the following proportions :

Food	60 per cent.
Rent, etc.	16 per cent.
Fuel, etc.	8 per cent.
Clothing	12 per cent.
Other Items	4 per cent.

but " Food," for example, did not include exotic fruits, nor did " Clothing " cover luxury articles such as dress suits or expensive sports-wear. The groupings were for utilitarian articles for use by the poorer classes.

The figures now published by the Government show what is spent, and on what classes of goods. These classes we have listed in two groups under the headings of Essential and Non-Essential goods below.

Essential Goods	*Non-Essential Goods*
Food	Alcoholic beverages
Rent, rates and water	Tobacco and cigarettes
Fuel and light	Reading matter
Durable household goods	Private motor vehicles (and their running expenses)
Other household goods	Travel
Clothing	Entertainments
	Other goods and services

This grouping gives us a set of essential items closely approximating (though not exactly so) to that used in the Official Index. But it is desirable to stress at this point that we do not thereby achieve a direct comparison between the " official " selection of goods and the " essential " group of goods just listed. Apart from differences of definition already mentioned (i.e. as to quality and type) the proportions in which purchases are assumed to take place (the statistical " weights ") vary. For example, the expenditure of the population as a whole on the " essential " group only was distributed between the various items in 1938 and 1945 in the following proportions, which it will be seen diverge substantially from the weights

adopted in the official index, as shown above :

	In 1938	In 1945
Food	46·2 per cent.	48·5 per cent.
Rent, etc. ..	18·5 per cent.	23·6 per cent.
Fuel, etc. ..	7·4 per cent.	9·2 per cent.
Household goods	10·9 per cent.	5·6 per cent.
Clothing ..	17·0 per cent.	13·1 per cent.

We have already mentioned that the progressive advancement in living standards has, according to our observations, transmuted certain non-essentials into conventional necessities. How far that process has gone is pure guess-work in the absence of adequate sampling or other form of enquiry. The movement in prices can, nevertheless, be seen in reasonable perspective if we examine first the relatively small rise in essential goods only, secondly the much greater rise in "inessentials" and, thirdly an intermediate price index obtained by adding to the "essentials" some proportion of the inessentials. By way of illustration, we have compiled an index for a group composing all the essentials plus one-quarter only of the inessentials. Whilst not of itself authentic in any way, an arbitrary weighting may be helpful to emphasize the effects of social changes brought about by a greater diffusion of all kinds of goods than was anticipated in the 1914 Index.

Table I below puts in tabular form for ready comparison the various concepts of price changes to which we have referred. The first derived index tells the story of the change from 1938 onwards in the price of all consumer goods acquired by persons, taking the total expenditure as a whole.

The indices in the remaining "Essential goods only" and the "Non-Essential goods only" columns are given in dual form. To satisfy the argument that 1938 was the last year in which buyers had complete freedom of choice in respect of the proportions in which they spread their buying we have assumed that throughout the war the public would, if it could, have continued to buy in those proportions. On the other hand there are those who regard these proportions as one might regard the water that has passed through the mill, that is, of no further usefulness to the economic mechanism. To such the most up-to-date proportions only will suffice, and to

accommodate them a column is written in at the 1945 weightings.

TABLE I.

Year	Ministry of Labour working class cost of living Sept. 1939 = 100	All consumer goods—derived index[1]	Essential goods only		Non-essential goods only		Essential goods + proportion of non-essential goods	
			At 1938 proportions	At 1945 proportions	At 1938 proportions	At 1945 proportions	At 1938 proportions	At 1945 proportions
1938	99	100	100	100	100	100	100	100
1939	102	102	102	102	102	103	102	102
1940	119	120	120	118	121	123	120	119
1941	128	132	135	131	133	135	135	131
1942	129	142	142	135	151	155	143	137
1943	128	147	142	134	162	168	144	139
1944	130	151	143	136	167	174	146	142
1945	131	153	145	139	170	176	148	144

(1) This and the succeeding columns are founded on data contained in White Paper Cmd. 6784.

None of these columns may be said to give us an unassailable "Working Class Cost of Living Index," but we are presented with some interesting facts. The first is the small deviation between the "Essential Goods Only" Index and the composite index in which a quarter of the non-essentials is included. The inclusion of non-essentials does not have any remarkable effect on the indices as a whole. The second fact is that the Essential goods indices deviate from the "Official" Index in 1945 by as much as 10 per cent. if the 1938 weights are used, and 6 per cent. on the 1945 weights.

This would appear remarkable were we not already aware of the effect of certain shifts in emphasis, of which the most outstanding is that accorded to Clothing and Household and "Other" goods. Whereas in the "Official" index only 12 per cent. of expenditure is allocated to Clothing and 4 per cent. for "Other" items, in the case of actual purchases in 1938 we have allowed 17 per cent. for clothes and 10·9 per cent. for "Other items" at 1938 proportions, or 13·1 per cent. and 5·6 per cent. at 1945 proportions. Clothing prices rose to

185 per cent. of 1938 prices and the Durable goods part of the Household goods index rose to 209 per cent. The price indices in Table II below give the itemized figures.

TABLE II.

PRICE INDICES OF CONSUMER GOODS 1938=100.

	1939	1940	1941	1942	1943	1944	1945
Food	102	122	134	134	136	136	137
Alcoholic Beverages ..	104	132	148	180	203	214	215
Tobacco	112	146	161	201	240	247	248
Rent, Rates & Water ..	101	102	103	103	103	103	103
Fuel & Light	101	112	118	122	127	133	138
Durable Household Goods	102	129	171	215	214	210	209
Other Household Goods ..	100	110	117	119	122	130	132
Clothing	103	133	164	178	174	180	185
Reading Matter	100	116	113	122	122	123	122
Privately owned Motor Vehicles and their running expenses	101	117	123	127	117	117	124
Travel	100	108	114	117	114	114	115
Communications	103	123	142	139	150	154	146
Entertainments	100	119	119	138	160	171	176
Services not included above	100	112	120	128	133	138	141
Other Goods	102	117	150	178	180	182	195
ALL ITEMS	102	120	132	142	147	151	153

Derived from White Paper Cmd. 6784.

There is some degree of uncertainty as to the usefulness of the figures in the later years of the War and for this reason the columns employing the 1945 weightings in Table I are less reliable than the figures resulting from a continuance of 1938 weights. As the War deepened, the consumption of goods was determined more by the availability of supplies than the latent preferences of the individual. Also, goods depreciated qualitatively (and this involves also quantitative depreciation, e.g. the reduced bulk of books and periodicals). We are not in 1945, comparing like with the like of 1938.

Finally, Table II illustrates briefly the effects of indirect taxation, especially in the cases of alcohol and tobacco.

H. C. F. HOLGATE.

WAGES IN THE UNITED KINGDOM

Average Percentage Increases in Weekly Earnings since October, 1938.

Industry Group	All Workers						January 1946				
	July 1940	July 1941	July 1942	July 1943	July 1944	July 1945	All Workers	Men (21 years and over)	Youths and Boys (under 21 years)	Women (18 years & over)	Girls (under 18 years)
Iron, stone, etc., mining and quarrying	23	38	49	62	65	73	66	65	71	†	†
Treatment of non-metalliferous mine and quarry products ..	26	37	49	60	67	74	73	71	68	110	†
Brick, pottery and glass ..	19	36	50	64	69	74	77	75	69	87	107
Chemical, paint, oil, etc. ..	25	36	47	64	70	75	71	68	53	85	86
Metal, engineering and ship-building	43	49	67	81	85	82	73	63	63	92	80
Textiles	29	37	57	70	79	86	89	84	84	83	94
Leather, fur, etc.	16	30	47	59	69	73	79	71	73	62	90
Clothing	13	28	46	56	68	76	76	72	68	69	82
Food, drink and tobacco ..	15	29	41	55	63	70	72	67	50	71	79
Woodworking	17	31	43	53	60	65	69	64	65	80	100
Paper, printing, stationery, etc.	3	16	28	40	49	52	59	47	49	67	83
Building, contracting, etc. ..	32	49	55	64	62	65	61	62	80	†	†
Miscellaneous manufacturing industries	32	38	60	81	91	96	96	77	65	93	92
Transport, storage, etc. (excluding railways)	19	29	37	45	59	61	57	57	70	126	†
Public utility services	10	20	28	34	42	49	54	59	46	86	52
Government industrial establishments	†	27	35	52	63	56	42	46	57	59	†
All the above	30	42	60	76	82	80	74	65	66	84	85

Source: Ministry of Labour Gazette.

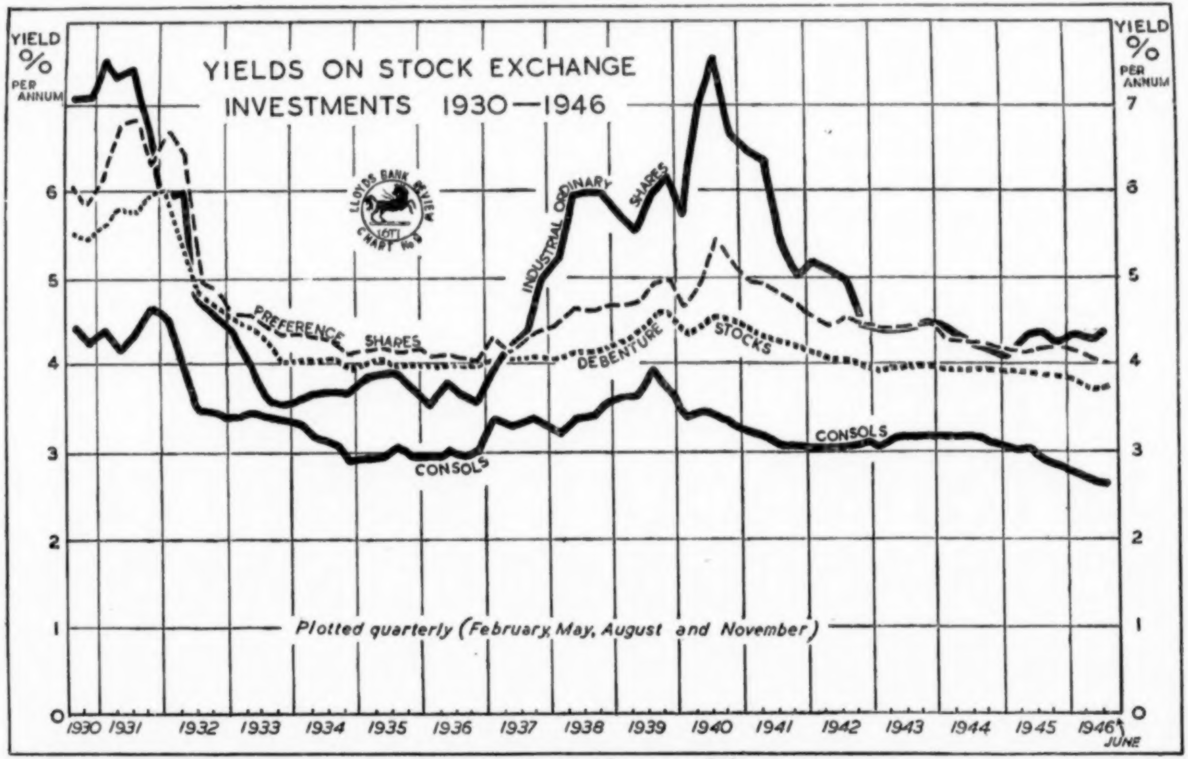
† Not available.

SMALL SAVINGS.

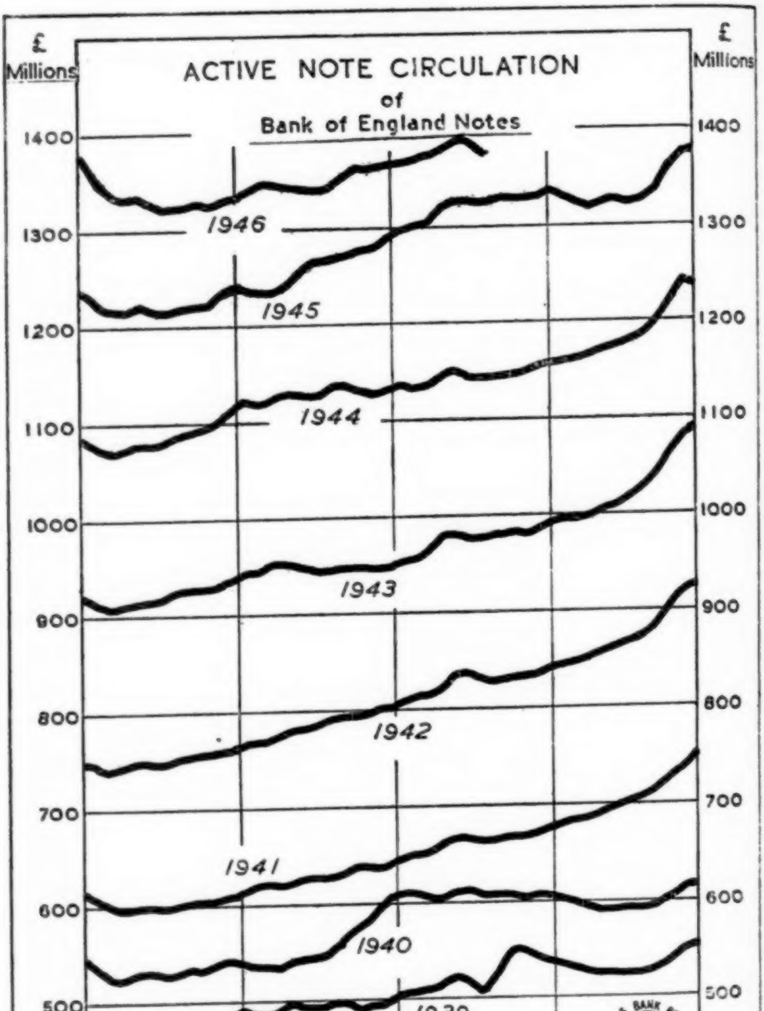
Period*	National Savings Certificates			Defence Bonds (Net increase)	Increase in Post Office and Trustee Savings Bank Balances	Total
	Raised	Redeemed	Net			
	£000	£000	£000	£000	£000	£000
1942	250,700	38,750	211,950	133,965	154,608	500,523
1943	314,100	44,650	269,400	120,843	177,275	567,518
1944	293,150	62,500	230,650	111,943	211,600	554,193
1945	222,600	101,000	121,600	153,751	226,471	501,822
Month to: 1945						
Jan. 27th ..	20,900	4,250	16,650	7,084	41,145	64,879
Feb. 24th ..	22,600	5,050	17,550	5,955	30,981	54,486
Mch. 31st † ..	19,100	7,750	11,350	6,992	36,568	54,910
April 28th ..	16,700	6,250	10,450	6,906	26,202	43,558
May 26th ..	14,050	5,850	8,200	4,593	23,894	36,687
June 30th † ..	18,700	8,800	9,900	7,370	21,417	38,687
July 28th ..	14,050	9,700	4,350	7,078	19,955	31,383
Aug. 25th ..	11,750	7,650	4,100	4,504	41,906	50,510
Sept. 29th † ..	15,700	10,450	5,250	13,029	37,828	56,107
Oct. 27th ..	26,900	7,550	19,350	36,479	33,654	89,483
Nov. 24th ..	26,450	10,050	16,400	32,542	24,767	73,709
Dec. 31st † ..	15,700	17,650	−1,950	21,219	18,006	37,275
1946						
Jan. 26th ..	13,900	3,300	10,600	23,067	48,923	82,590
Feb. 23rd ..	14,950	9,350	5,600	20,387	36,896	62,883
Mch. 30th † ..	15,300	12,750	2,550	22,959	34,925	60,434
April 27th ..	11,300	11,450	−150	25,967	16,250	42,067
May 25th ..	11,750	12,350	−600	58,436	10,616	68,452
June 30th † ..	12,500	14,050	−1,550	11,487	9,308	19,245
Aug. 3rd † ..	12,500	14,350	−1,850	11,796	8,103	18,049
Total: Jan. 1st—Aug. 3rd, 1946	*92,200*	*77,600*	*14,600*	*174,099*	*165,021*	*353,720*

(*) In the case of the Post Office and Trustee Savings Bank figures, the period "month" means the calendar month, commencing 1st–31st Jan., 1945, both dates inclusive. Amounts credited to these accounts in respect of Special Service Release grants are included in these figures.

(†) Five-week period.



Source: Actuaries' Investment Index


ACTIVE NOTE CIRCULATION
of
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£ Millions
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1400
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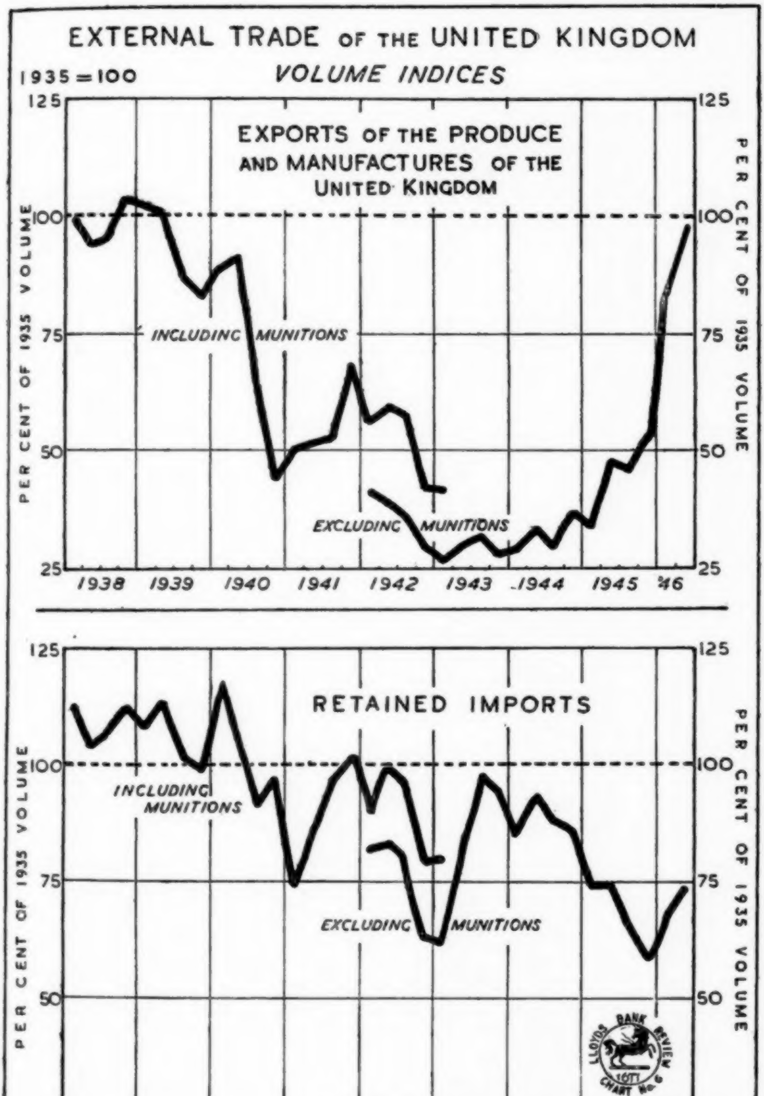
2nd Quarter
3rd Quarter
4th Quarter

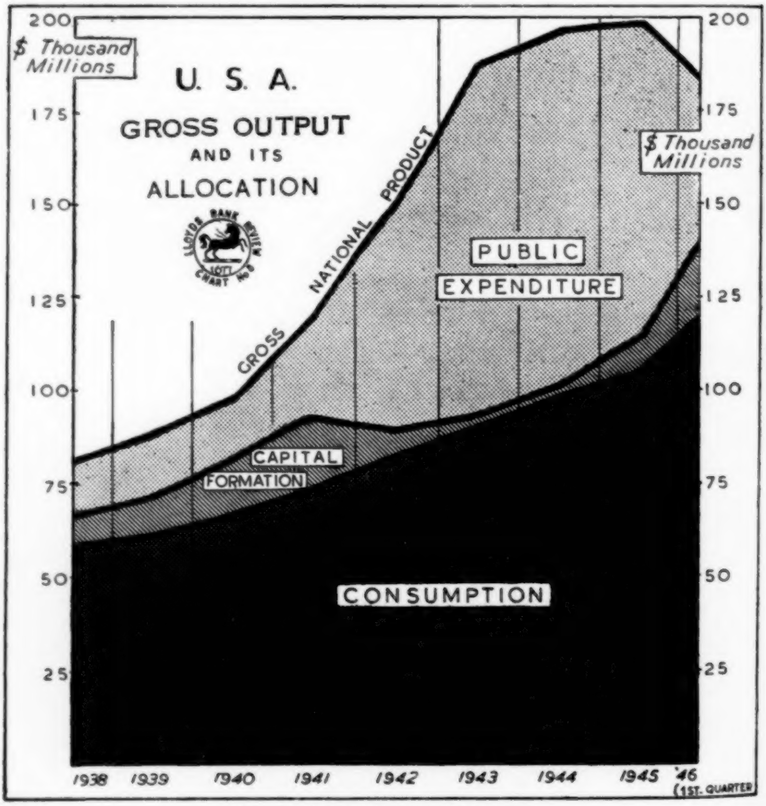

EXTERNAL TRADE OF THE UNITED KINGDOM
1935 = 100
VOLUME INDICES
EXPORTS OF THE PRODUCE AND MANUFACTURES OF THE UNITED KINGDOM
INCLUDING MUNITIONS
EXCLUDING MUNITIONS
RETAINED IMPORTS
INCLUDING MUNITIONS
EXCLUDING MUNITIONS
PER CENT OF 1935 VOLUME
125
100
75
50
25
1938
1939
1940
1941
1942
1943
1944
1945
'46
LLOYDS BANK REVIEW
CHART No. 6
SOURCE: BOARD OF TRADE

U.S.A.—NATIONAL INCOME AND PRODUCT.

(Thousand millions of Dollars.)

	1941	1942	1943	1944	1945	1946 Jan.–Mar.*
GOVERNMENT EXPENDITURE ON GOODS AND SERVICES—						
Federal Government—War	13·3	50·3	81·3	83·7	69·4	25·7
Non-War	5·3	5·0	4·9	5·7	6·3	7·1
State and Local Government	7·9	7·4	7·4	7·7	7·9	8·3
	26·5	62·7	93·5	97·1	83·6	41·1
OUTPUT AVAILABLE FOR PRIVATE USE—						
Private Gross Capital Formation	19·1	7·6	2·5	2·0	9·1	19·2
Consumers' Goods and Services	74·6	82·0	91·3	98·5	106·4	120·2
Gross National Product	120·2	152·3	187·4	197·6	199·2	180·6
Total Compensation of Employees ..	64·5	84·1	106·3	116·0	114·5	103·7
Net Income of Proprietors—Agricultural ..	6·3	9·7	11·9	11·8	12·5	13·0
Non-Agricultural	9·6	10·9	11·6	12·3	13·1	14·7
Interest and Net Rents	8·0	8·8	9·7	10·6	11·8	12·5
Net Corporate Profit—Dividends	4·5	4·3	4·3	4·5	4·5	{ 9·9
Savings	4·0	4·4	5·5	5·4	4·5	
Net National Income	96·9	122·2	149·4	160·7	161·0	153·7
Business Tax and Non-Tax Liabilities ..	18·5	23·1	27·4	29·7	28·6	{ 26·9
Depreciation and Depletion Charges ..	7·0	7·6	8·0	8·2	8·0	
Other Business Reserves and Adjustments ..	−2·2	−0·6	2·6	−0·9	1·7	
Gross National Product	120·2	152·3	187·4	197·6	199·2	180·6

(*) Seasonally adjusted annual rates.



Source: U.S. Department of Commerce.